

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AGR-10 SP-02 AID-05 NSC-05

RSC-01 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 TAR-01 L-02 H-02 PA-02 PRS-01 USIA-15

/110 W

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R 102133Z JAN 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9031

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

UNCLAS SAN JOSE 0127

E.O. 11652: NA

TAGS: ETRD EFIN CS

SUBJECT: NEW ECONOMIC MEASURES

REF: SAN JOSE 4917

SUMMARY:

THE GOCR HAS ANNOUNCED A HIKE IN SELECTIVE CONSUMPTION

TAXES, WHICH IS DESIGNED TO FALL ESPECIALLY HARD

ON GOODS IMPORTED FROM OUTSIDE OF CENTRAL AMERICA.

THE GOCR ALSO CLAIMS TO BE IN THE PROCESS OF

DEVELOPING A PROGRAM OF FISCAL AUSTERITY FOR

1975 TO INCLUDE A FREEZE ON PUBLIC HIRING.

1. A NEW SCHEDULE OF SELECTIVE CONSUMPTION

TAXES BECAME EFFECTIVE ON JANUARY 9. THE NEW

SCHEDULE, WHICH HAS BEEN EXPECTED FOR SEVERAL

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MONTHS, SHARPLY INCREASES THE OVERALL LEVEL

OF CONSUMPTION TAXES: ALTHOUGH IN A FEW CASES WHERE THE CONSUMPTION TAX RATE IN EFFECT WAS ALREADY HIGH, THE PREVIOUS RATE IS RETAINED. THE NEW CONSUMPTION TAXES VARY FROM TEN TO A HUNDRED PERCENT, DEPENDING ON THE NATURE AND THE ORIGIN OF THE PRODUCT INVOLVED, BUT MOST IMPORTS AFFECTED WILL PAY A 50-100 PERCENT RATE.

2. THE UPWARD REVISION IN CONSUMPTION TAX LEVELS IS MOTIVATED BY COSTA RICA'S BALANCE OF PAYMENTS DIFFICULTIES AND IS AIMED AT DISCOURAGING PURCHASE OF "UNNECESSARY" IMPORTED ITEMS. ALTHOUGH THE BURDEN OF THE TAX FALLS MAINLY ON GOODS IMPORTED FROM OUTSIDE OF CENTRAL AMERICA: CERTAIN PRODUCTS PRODUCED DOMESTICALLY AND WITHIN THE COMMON MARKET ARE, HOWEVER, ALSO AFFECTED, APPARENTLY FOR REVENUE REASONS. ALONG WITH THE RECENTLY INSTITUTED CONTROLS ON CONSUMER CREDIT AND EFFORTS TO ENCOURAGE EXPORTS, THE NEW CONSUMPTION TAX RATES FORM AN ESSENTIAL PART OF THE GOVERNMENT'S PLAN TO IMPROVE THE COUNTRY'S BALANCE OF PAYMENTS IN 1975. THE NEW RATES ARE ALSO DESIGNED TO PROVIDE THE GOVERNMENT WITH A SOURCE OF REVENUE WHICH WILL, AT LEAST, IN PART SUBSTITUTE FOR THE LOSS OF ANTICIPATED PROCEEDS FROM RECENTLY LOWERED EXPORT TAXES (SEE REFTTEL). MINISTER OF FINANCE MOERA HAS STATED, HOWEVER, THAT ONLY TIME LRLT TELL IF THIS REVENUE EFFECT WILL OCCUR, AS IT IS QUITE POSSIBLE THAT THE NEW RATES WILL AFFECT DOMESTIC CONSUMPTION SO ADVERSELY THAT TOTAL GOVERNMENT REVENUE FROM THE SELECTIVE CONSUMPTION TAXES MAY ACTUALLY FALL OFF IN 1975.

3. BESIDES THE BALANCE OF PAYMENTS AND POSSIBLE REVENUE EFFECTS OF THE NEW TAX RATES, MINISTER MORERA SEES A THIRD POSSIBLE EFFECT. HE IS HOPEFUL THAT THE RATES, DISCRIMINATING AS THEY DO AGAINST IMPORTED PRODUCTS, WILL TEND TO

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ENCOURAGE NATIONAL PRODUCTION OF SUBSTITUTABLE PRODUCTS, THUS INCREASING OPPORTUNITIES FOR DOMESTIC EMPLOYMENT. MANUFACTURERS AND MERCHANTS, HOWEVER, FEAR AN OPPOSITE EFFECT (SEPTTEL).

4. IN ANNOUNCING THE GENERAL HIKE IN CONSUMPTION TAXES, THE GOCR ALSO ANNOUNCED THAT IT IS FORMULATING A PROGRAM OF FISCAL AUSTERITY FOR 1975. ONE OF

THE MEASURES TO BE INCLUDED IS A FREEZE ON PUBLIC
HIRING DURING THE YEAR.

5. COMMENT: WHILE THE NEW SELECTIVE CONSUMPTION
TAX RATES ARE SUPPOSED TO BE AIMED AT CURBING
UNNECESSARY SPENDING, SOME ITEMS ARE AFFECTED WHICH
ARE FAR FROM LUXURIOUS IN NATURE, SUCH AS A BAR
OF DOMESTICALLY MANUFACTURED SOAP, FROZEN FOODS,
PEANUT OIL, AND TYPEWRITER RIBBONS. THE EMBASSY
IS SENDING A COPY OF THE COMPLETE TAX SCHEDULE
UNDER COVERING AIRGRAM.
OGG

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